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FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN

AMEMBASSY JIDDA

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FOLLOWING SENT ACTION CARACAS FROM SECSTATE DEC 11.

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E.O. 11652: N/A

TAGS: ENRG, EAGR, ETRD, VE

SUBJECT: US SHORT SUPPLY RESTRICTIONS

REF: CARACAS 10181

CARACAS 10237

1. DEPARTMENT APPRECIATES TIMELY SUGGESTION CONTAINED IN REFTEL TO REVIEW US-VENEZUELA TRADE POLICY. IN DISCUSSING US SHORT SUPPLY CONTROLS WITH VENEZUELAN, EMBASSY SHOULD MAKE CLEAR THAT USG HAS IMPOSED SUCH CONTROLS WITH GREAT RELUCTANCE AND ONLY AS LAST RESORT, AFTER IT EVIDENT THAT FAILURE TO TAKE SUCH ACTION WOULD RESULT IN SEVERE DISLOCATIONS TO US ECONOMY. THIS YEAR, DESPITE RISING TIDE OF INDUSTRY AND USER PRESSURES ON USG FOR WIDE RANGE OF SHORT SUPPLY EXPORT CONTROLS (E.G., COTTON; FERTILIZER; CERTAIN KINDS OF NON-FERROUS METALS AND SCRAP; TIMBER; WHEAT), USG HAS TAKEN SUCH ACTION ONLY WITH RESPECT TO SOYBEANS AND FERROUS SCRAP. IN CASE OF SOYBEANS, CONTROLS WERE LIFTED SOON AFTER THEY WERE IMPOSED, AND USG HOPEFUL

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THAT FERROUS SCRAP CONTROLS MAY NO LONGER BE NECESSARY

AFTER FIRST QUARTER 1974 (ALTHOUGH LARGE NUMBER OF UNCERTAINTIES THAT COULD AFFECT US AND FOREIGN SCRAP SUPPLY AND DEMAND POSE A QUESTION MARK RE DURATION OF CONTINUED NEED FOR THESE CONTROLS).

2. IN CASE OF FERROUS SCRAP, NOT A SINGLE ONE OF OUR MAJOR FOREIGN MARKETS WILL RECEIVE ALL THE SCRAP IT WANTS OR NEEDS DURING FIRST QUARTER 1974. MAJOR FOREIGN MARKET COUNTRY ALLOCATIONS ANNOUNCED NOV. 28 WERE BASED ON HISTORIC TRADE, AS REQUIRED BY GATT, AND REPRESENT COVERAGE OF ESTIMATED NATIONAL SCRAP REQUIREMENTS RANGING FROM LOW OF APPROXIMATELY 28 PERCENT FOR REPUBLIC OF CHINA TO APPROXIMATELY 66 PERCENT FOR EC AND JAPAN. IN CASE OF VENEZUELA, FIRST QUARTER 49,970 TON ALLOCATION REPRESENTS APPROXIMATELY 57 PERCENT COVERAGE OF ESTIMATED REQUIREMENT OF 87,000 TONS (LATTER DERIVED SIMPLY BY DIVIDING GOV'S ESTIMATE OF 348,000 TON 1974 REQUIREMENT BY FOUR, AND THEREFORE MAY NOT TAKE INTO ACCOUNT SEASONAL FLUCTUATIONS).

3. AFTER NOV. 28 MEETING WITH FOREIGN EMBASSY REPS (AT WHICH SCRAP POLICY FOR FIRST QUARTER 1974 WAS ANNOUNCED), DEPUTY ASST. SECY KATZ MET WITH VENEZUELAN EMBASSY MINISTER PINTO. KATZ REITERATED TO PINTO THAT USG WOULD LIFT SCRAP CONTROLS AS SOON AS POSSIBLE, AND EXPRESSED HOPE THAT CONTROLS WOULD NOT BE NECESSARY MUCH BEYOND FIRST QUARTER. KATZ ALSO ASKED PINTO TO ADVISE DEPARTMENT SHOULD VENEZUELA BE CONFRONTED WITH SERIOUS SCRAP SUPPLY PROBLEMS DURING FIRST QUARTER (OR AFTERWARDS), IN WHICH CASE DEPARTMENT WOULD DO ALL IT COULD TO HELP AMELIORATE SITUATION. IN THIS REGARD, KATZ NOTED ESTABLISHMENT 100,000 SHORT TON CONTINGENCY RESERVE TO ENABLE USG TO LIMITED EXTENT TO DEAL WITH DIFFICULT HARDSHIP CASES THAT MIGHT ARISE DURING FIRST QUARTER. FYI USG ENDEAVORING ALLOCATE SOME PART OF THIS 100,000 TON RESERVE FOR VENEZUELA END FYI.

4. RE EMBASSY SUGGESTION THAT USG CONSIDER EXEMPTING VENEZUELA FROM ANY SHORT SUPPLY CONTROLS, SUCH EXEMPTION WOULD BE CONTRARY TO OUR GATT UNDERTAKING. GATT PROVIDES LIMITED OFFICIAL USE

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THAT ANY IMPORT OR EXPORT CONTROLS BE APPLIED ON AN MFN BASIS, THAT IS, TO ALL COUNTRIES. ONLY APPLICABLE EXCEPTION TO THIS GENERAL RULE IN CASE OF EXPORT CONTROLS IS THAT CONTIGUOUS COUNTRIES MAY BE EXEMPTED FROM CONTROLS IN ORDER TO FACILITATE FRONTIER TRAFFIC. THIS WAS BASIS FOR SPECIAL FERROUS SCRAP QUOTAS ESTABLISHED FOR CANADA AND MEXICO FOR LAST QUARTER 1973, FOLLOWING SUSPENSION OF EXEMPTION ALLOWING LICENSING OF UNDER-500 TON SCRAP

ORDERS REGARDLESS OF WHEN ORDERS PLACED.

5. NEVERTHELESS, WE RECOGNIZE GREAT IMPORTANCE TO US NATIONAL INTERESTS OF MAINTAINING PETROLEUM SUPPLIES FROM VENEZUELA AT HIGH LEVEL. YOU MAY REST ASSURED, THEREFORE, THAT WHILE WE CANNOT ACCEPT EMBASSY PROPOSAL IN ITS TOTALITY, THIS FACTOR WILL BE KEPT CLEARLY IN MIND IN DETERMINING US COURSE OF ACTION ON ANY MATTER WHICH COULD AFFECT THIS. WHILE YOU SHOULD NOT SPEAK TO THE GOV IN ABOVE TERMS JUST YET, DEPT. WILL BE CONSIDERING, AND WOULD APPRECIATE YOUR SUGGESTIONS FOR INSTRUCTIONS TO EMBASSY TO DISCUSS WITH NEW GOV, AT TIME AND OCCASION DEEMED APPROPRIATE, GENERAL SITUATION AS IT CONCERNS CRITICAL US SUPPLIES TO VENEZUELA IN EFFORT TO FORESEE PROBLEMS THAT MIGHT ARISE.

6. RE GENERAL PROBLEM OF OBTAINING COMMODITIES IN TIGHT SUPPLY BUT WHICH ARE NOT SUBJECT TO EXPORT CONTROLS (E.G., NEWSPRINT) AS REPORTED CARACAS 10237 USG CAN BRING PARTICULAR PROBLEMS OF VENEZUELA TO ATTENTION OF POSSIBLE US SUPPLIES, AND ENCOURAGE SUCH SALES, BUT FINAL DECISION ON WHETHER TO EXPORT, AND THE ALLOCATION OF HIS LIMITED AVAILABILITIES AMONG VARIOUS COMPETING FOREIGN MARKETS, RESTS WITH THE SUPPLIER.

7. PARAS 4, 5 AND 6 ARE FOR YOUR INFORMATION ONLY AND SHOULD NOT BE PASSED ON TO THE VENEZUELAN. THERE ARE GENUINE PROBLEMS WITH ANY EFFORT TO GIVE ANY COUNTRY ACROSS-THE-BOARD SPECIAL TREATMENT. BUT WE WOULD NOT WANT TO ENGAGE THE VENEZUELAN IN A GENERAL ARGUMENT ON PRINCIPLES. IF THE VENEZUELAN RAISE THESE OR OTHER QUESTIONS, PASS THEM TO WASHINGTON FOR REVIEW AND DO NOT TAKE THE INITIATIVE TO POINT OUT POSSIBLE DIFFICULTIES.
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